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Annual Report

OF

Strawbridge & Clothier

PHILADELPHIA, PA.

FOR THE FISCAL YEAR ENDED
JANUARY 31, 1945

MRB
Corp. File

BOARD OF DIRECTORS

MORRIS L. CLOTHIER, *Chairman*

HERBERT J. TILY
ISAAC H. CLOTHIER, JR.
ROBERT E. STRAWBRIDGE
FREDERIC H. STRAWBRIDGE
FRANCIS R. STRAWBRIDGE
HOWARD COOPER JOHNSON
JOHN JACKSON
J. CLAYTON STRAWBRIDGE

OFFICERS

MORRIS L. CLOTHIER, Chairman of the Board
HERBERT J. TILY, President
ISAAC H. CLOTHIER, JR., Vice-President
ROBERT E. STRAWBRIDGE, Vice-President
HOWARD COOPER JOHNSON, Vice-President and Treasurer
JOHN JACKSON, Vice-President
J. CLAYTON STRAWBRIDGE, Secretary
L. G. ANDREWS, Assistant Treasurer and Assistant Secretary

STRAWBRIDGE & CLOTHIER

ANNUAL REPORT

March 31, 1945.

To the Stockholders of
Strawbridge & Clothier:

The balance sheet of Strawbridge & Clothier as of January 31, 1945, and the income account for the year ended that date are submitted herewith, duly certified by Ernst & Ernst, accountants elected by the stockholders.

Earnings before taxes on income were $5,674,297.19, an increase of $995,701.38 over the preceding fiscal year. The provision for taxes on income, less post-war refund of excess profits taxes, amounts to $4,185,000.00, resulting in a net profit of $1,489,297.19. Income taxes represent 73.75% of the current year's earnings. On the outstanding capital stock of your Company income taxes amount to 37.45%. After dividends on the outstanding Preferred stocks there remains the sum of $1,005,014.33 as earnings on Common stock, or $5.31 per share.

Working capital at the year's end amounted to $6,503,681.08, an increase of $550,338.91, as compared with January 31, 1944, thus materially strengthening the Company's financial position.

Merchandise inventories are conservatively valued on the "last-in, first-out" method, which, as explained in the notes of the financial statement, provides a substantial reserve against possible future price adjustments.

In compliance with the stockholders' action of March 22, 1944, the unamortized balance of the 1928 appreciation of land and buildings was eliminated, so that the properties are now carried at depreciated cost values.

Three hundred and sixty-five of our men and women have been enrolled for service with the armed forces. Of these, four have paid the supreme sacrifice, and to their loved ones we express our deep sympathy. Fourteen have returned to resume their positions in the store. All who are still in the service are assured that, when the time comes for their return they will receive a warm welcome. We, who remain on the home front, are glad to share their efforts in every way possible, by effective and intensified cooperation with all service organizations, with the United States Treasury Department in the purchasing and selling of War Bonds, and by strict compliance with war-time regulations.

In March, 1944, Mr. John Jackson was elected a Vice-President of your Company and Mr. J. Clayton Strawbridge, Secretary.

The year was, as we anticipated it would be, one of the most difficult in our history. This fact was, however, but a challenge to the resourcefulness, industry and intelligence of our executive staff. So well did they accomplish their various tasks that a fine standard of service was maintained and many new records of achievement were made. These included, among others, the largest volume of sales and the largest production per person employed.

Our sincere appreciation is expressed to all our fellow-workers for their part in making such results possible.

By order of the Board of Directors,

HERBERT J. TILY,
President.

ERNST & ERNST
ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

PHILADELPHIA
FIDELITY-PHILADELPHIA TRUST BLDG.

March 26, 1945.

STOCKHOLDERS,
STRAWBRIDGE & CLOTHIER,
Philadelphia, Pa.

We have examined the balance sheet of STRAWBRIDGE & CLOTHIER as of January 31, 1945, and the statement of profit and loss and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the Company and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate, except that, as requested, we did not communicate with customers to confirm accounts receivable. In other respects, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, subject to the limitation of the scope of our work above set forth, the accompanying balance sheet and related statement of profit and loss and surplus present fairly the position of STRAWBRIDGE & CLOTHIER at January 31, 1945, and the results of its operations for the year, in conformity with generally accepted accounting principles, which, except for the write-down of the value of the land and buildings to the basis of cost less depreciation (approved by us), have been applied on a basis consistent with that of the preceding year.

ERNST & ERNST,
Certified Public Accountants.

STATEMENT OF PROFIT AND LOSS AND SURPLUS

STRAWBRIDGE & CLOTHIER

Fiscal year ended January 31, 1945

Profit before deducting interest, depreciation and provision for federal and state income taxes			$ 6,378,633.83
Deduct:			
Interest		$ 291,596.27	
Depreciation		412,740.37	704,336.64
PROFIT BEFORE TAXES ON INCOME			$ 5,674,297.19
Taxes on income:			
Provision for the current year—estimated:			
Federal normal tax and surtax	$ 385,000.00		
Federal excess profits tax after deducting indebtedness credit of $162,000.00	3,810,000.00		
State income tax	220,000.00	$4,415,000.00	
Less post-war refund of excess profits tax		230,000.00	4,185,000.00
NET PROFIT			$ 1,489,297.19
Surplus at February 1, 1944 (including capital and appreciation surplus of $4,085,158.30)			8,669,749.88
			$10,159,047.07
Surplus credit:			
Adjusting miscellaneous securities to cost basis			4,422.74
			$10,163,469.81
Surplus charges:			
Cash dividends declared:			
Prior preference stock ($6.00 per share)		$ 91,702.86	
Preferred stocks ($5.00 per share)		392,580.00	
		$ 484,282.86	
Write-off of unamortized balance of appreciation on land and buildings pursuant to stockholders action		5,543,171.01	
Premium paid on preferred stocks acquired		497.50	6,027,951.37
Surplus at January 31, 1945:			
Capital surplus		$ 845,248.33	
Earned surplus		3,290,270.11	
TOTAL SURPLUS—JANUARY 31, 1945			$ 4,135,518.44

See accompanying notes to financial statements

BALANCE

STRAWBRIDGE

January

ASSETS

CURRENT ASSETS			
Cash			$ 4,296,862.15
Accounts receivable:			
Customers' charge accounts		$ 3,264,213.08	
Customers' installment accounts		854 290.65	
Creditors' debit balances		91,052.53	
		$ 4,209,556.26	
Less reserve		200,000.00	4,009,556.26
Merchandise inventories (Note A)			3,395,125.85
TOTAL CURRENT ASSETS			$11,701,544.26
OTHER ASSETS			
Post-war refund of excess profits tax—estimated		$ 230,000.00	
Sundry investments—at cost	$ 72,823.74		
Miscellaneous accounts receivable and advances	31,831.01		
	$104,654.75		
Less reserve	50,000.00	54,654.75	284,654.75
PROPERTY, FIXTURES AND EQUIPMENT—At cost			
Operating—land, buildings and equipment (after reserve of $6,536,683.33 for depreciation)		$14,516,966.41	
Non-operating—land and buildings (after reserve of $77,992.38 for depreciation)		420,258.08	14,937,224.49
DEFERRED CHARGES			
Unamortized refinancing expense		$ 53,013.38	
Supply inventories		215,202.40	
Prepaid expenses		103,043.38	371,259.16
			$27,294,682.66

See accompanying notes

SHEET

& CLOTHIER

31, 1945

LIABILITIES

CURRENT LIABILITIES			
Mortgage installments due in 1945			$ 409,711.10
Accounts payable			1,304,239.85
Accrued accounts			692,857.82
Employees' income tax withheld and pay roll taxes			87,057.41
Federal, state and local taxes—estimated (Note A)		$ 4,715,014.84	
Less U. S. Treasury notes—Tax Series C		2,092,000.00	2,623,014.84
Deposits on War bond subscriptions			58,182.16
Dividends payable			22,800.00
TOTAL CURRENT LIABILITIES			$ 5,197,863.18
MORTGAGES PAYABLE			
First mortgage on main store and other properties—4%, final payment due 1959 (Note B)	$6,644,714.91		
Less amount classified as a current liability	369,711.10	$ 6,275,003.81	
First mortgage on branch store 4%, final payment due 1951	$ 270,000.00		
Less amount classified as a current liability	40,000.00	230,000.00	6,505,003.81
RESERVES			
For self insurance and contingencies			282,850.00
CAPITAL STOCK AND SURPLUS			
Capital stock (Note C):			
Prior Preference Stock (total authorized 145,200 shares) Series A 6% cumulative, par value $100.00 per share, redeemable at $105.00 per share—Authorized 15,200 shares; outstanding 15,200 shares		$ 1,520,000.00	
$5.00 Cumulative Preferred Stock, par value $100.00 per share, redeemable at $105.00 per share—Authorized 82,588 shares; outstanding 77,698 shares after deducting 3,552 shares in treasury		7,769,800.00	
Five Per Cent Preferred Stock, cumulative, par value $100.00 per share, redeemable at $105.00 per share—Authorized 1,331 shares; outstanding 818 shares after deducting 513 shares in treasury		81,800.00	
Common Stock, no par value—Authorized 300,000 shares; outstanding 189,396 shares after deducting 3,104 shares in treasury		1,801,847.23	
		$11,173,447.23	
Surplus (Notes A, B and D):			
Capital surplus	$ 845,248.33		
Earned surplus	3,290,270.11	4,135,518.44	15,308,965.67
			$27,294,682.66

to financial statements.

NOTES TO FINANCIAL STATEMENTS

Strawbridge & Clothier

January 31, 1945

Note A—Merchandise inventories are valued on the retail inventory method of accounting, adjusted to cost on the basis of "last-in, first-out" as authorized by the Internal Revenue Code. The provision for taxes on income has been made on that basis. The office of the Internal Revenue Agent in Charge at Philadelphia has examined the Company's federal income and excess profits tax returns for the fiscal years ended January 31, 1942, and 1943, and has proposed to disallow the Company's method of applying the "last-in, first-out" principle to the pricing of its inventories. The Company is contesting such proposal. If the examining officer's position is sustained, the cumulative effect to January 31, 1945, would be (1) an increase of $1,024,507.80 in the amount stated for inventories, (2) liability of approximately $785,000.00 for additional taxes on income, (3) a net increase of approximately $240,000.00 in the amount of reported profits for the four years ended January 31, 1945.

Note B—The indenture of mortgage contains certain provisions with respect to the amounts of cash or property (other than stock of the Company) that may be applied to the payment of dividends or to the purchase, redemption or retirement of outstanding shares of stock (exclusive of sinking fund payments for the retirement of the Prior Preference Stock). The amount of cash or property that may be applied to such purposes at any given date (approximately $2,250,000.00 at January 31, 1945) is determinable from certain factors specified in the indenture, the principal one of which is the excess of the net income accrued subsequent to January 31, 1942, over payments applied to such purposes since that date. It is also provided that net current assets must not be reduced below $4,500,000.00 and that the ratio (as computed under the indenture) of current assets to current liabilities must not be reduced below 175% by the payment of dividends or by the purchase, redemption or retirement of stock. Quarterly amounts of $157,500.00, covering both interest and amortization of principal, are payable under terms of the indenture.

Note C—Dividends on prior preference 6% cumulative stock have been paid to December 1, 1944, a dividend date. Dividends on the $5.00 cumulative preferred stock have been paid to January 1, 1945, a dividend date. Dividends on the five per cent preferred stock (formerly 7% cumulative preferred stock) have been paid for the period from January 1, 1942, to January 1, 1945, and the accumulated unpaid dividends on this class of stock remain at $43.50 per share, the amount established at December 31, 1941. The order of preference of the various classes of stock with respect to dividends and distribution in liquidation is that in which they are listed in the balance sheet, except that accumulated dividends to December 31, 1941, on the five per cent preferred stock are senior to the par value and accumulated dividends on the $5.00 cumulative preferred stock in distribution in liquidation.

Note D—Surplus is restricted in the amount of $406,500.00, representing the par value of stock held in the treasury.